



OFFICE OF THE COUNTY EXECUTIVE

ROCKVILLE, MARYLAND 20850

Douglas M. Duncan
County Executive

M E M O R A N D U M

January 16, 2001

TO: Blair G. Ewing, President, Montgomery County Council

FROM: Douglas M. Duncan, County Executive

SUBJECT: Washington Suburban Sanitary Commission
FY02 Capital Budget and FY02-FY07 Capital Improvements Program

I am pleased to transmit to you, in accordance with State law, my recommended FY02 Capital Budget and FY02-FY07 Capital Improvements Program (CIP) for the Washington Suburban Sanitary Commission (WSSC).

For its FY02-FY07 Capital Improvements Program, WSSC proposes \$637.4 million, of which \$565.7 million represents Montgomery County and bi-county projects. WSSC's FY02 Capital Budget request for Montgomery County and bi-county projects is \$103.8 million, up \$1.9 million from the FY01 amount of \$101.9 million approved in May, 2000. The net increase is primarily attributable to an increase in estimates by the District of Columbia's Water and Sewer Authority (WASA) for the Blue Plains Advanced Wastewater Treatment Plant (WWTP). The increase in Blue Plains WWTP project costs is offset in part by a decrease due to a lower than anticipated construction bid for the Patuxent Water Treatment Implementation project.

My recommendations for WSSC projects are discussed on the following pages. With a few noted exceptions, I support the program as submitted by WSSC.

Spending Affordability

Last fall, the Montgomery and Prince George's County Councils did not reach agreement on spending control limits. The WSSC proposal for spending affordability guidelines, with which I concur, includes no water and sewer rate increase for FY02 to FY05 and a maximum rate increase of 3.6 percent in FY06. Montgomery County Council supported a maximum 2 percent rate increase in FY02 with the additional funds earmarked for debt reduction. I recommend continued negotiation by the two Councils in order that a bi-county agreement may be reached.

Blue Plains Advanced Wastewater Treatment Plant

The four existing Blue Plains WWTP projects in WSSC's proposed FY02-FY07 CIP increased by a total of 6.5 percent from the FY01-06 approved CIP. The increase supported WASA's cost estimates at the time of WSSC's CIP submission. Since WSSC developed its proposed CIP, WASA issued a FY00-09 CIP which further refined its capital investment needs. WASA's CIP indicates higher

estimates for FY02 and lower proposed spending over the five-year period (FY03-07) than the WSSC proposal. I recommend adjusting the WSSC Blue Plains WWTP project estimates to align with current amounts proposed by WASA. The chart below indicates the magnitude of the recommended changes.

BLUE PLAINS PROJECTS COST COMPARISON (\$000s)							
Projects (WSSC FY02-FY07 Proposed CIP)	TOTAL 6 YR	FY02	FY03	FY04	FY05	FY06	FY07
Blue Plains WWTP: Liquid Train & Misc., Pt. 2	94,459	21,013	27,230	22,747	18,113	5,292	64
Blue Plains WWTP: Plant Wide Projects	140,990	16,889	40,636	26,944	19,111	20,236	17,174
Blue Plains WWTP: Biosolids Mgt., Pt. 2	134,953	17,556	24,818	23,955	20,410	20,827	27,387
Blue Plains WWTP: Biological Nutrient Removal	10,857	623	4,530	5,367	337	0	0
AGENCY REQUEST TOTAL	381,259	56,081	97,214	79,013	57,971	46,355	44,625
CE RECOMMENDED TOTAL	319,351	60,923	71,666	63,315	49,818	44,612	29,017
DIFFERENCE	(61,908)	4,842	(25,548)	(15,698)	(8,153)	(1,743)	(15,608)

Facility Planning/Laytonsville Elevated Tank and Pumping Station

As a general rule, the preferred CIP project development process calls for needs assessment and strategic-level planning first, followed next by facility planning, then design, and finally construction. It is in the facility planning stage (including public participation) that the specific scope can usefully be defined and reliable cost estimates developed. At that point, and generally not until that point, is a project considered well enough developed, or ready, to compete for entry into the CIP. The criteria used in the "readiness" stage review help to ensure that once a project is included in the CIP, it will be relatively stable in scope and cost; and there will have been significant opportunity for public review in the determination of design, siting, and other characteristics.

Consistent with the comments above, I recommend removal of FY03-FY06 project costs of \$3.5 million for the Laytonsville Elevated Tank and Pumping Station project until both the Montgomery County Council has approved an amendment to the comprehensive Water and Supply Sewerage Systems Plan to include Laytonsville as a service area and a comprehensive facility planning effort is complete.

System Development Charge

The System Development Charge (SDC) is a charge to new development to pay for the part of the CIP which is needed to accommodate growth. Thirty-two percent (\$36.7 million) of WSSC's proposed FY02 total funding (Montgomery, Prince George's and bi-county projects) is proposed as SDC or SDC credit eligible, increased from 30.7 percent (\$34.5 million) approved in FY01. According to WSSC estimates, the net effect of proposed SDC funding in the CIP will be an overall surplus; however, funding gaps are projected in three of the six years. Despite improvement in SDC revenue coverage of growth-related expenditures, I remain concerned about the growth funding gap and the extent to which debt must be used to close that gap. Issues on how to proceed in funding growth projects, finding alternative funding solutions, and SDC shortfalls must be resolved if we are to have adequate economic development capacity for the County. I recommend that WSSC continue to refine SDC-related estimates

by examining growth calculations and by allocating SDC revenues by project on project description forms.

Debt Capacity

State law provides for the option of a tax levy against all assessable property in the Washington Suburban Sanitary District by Montgomery and Prince George's Counties to pay for the principal and interest on WSSC bonds. This provision, which would be exercised only if requested by WSSC, does not constitute a pledge of the full faith and credit of the two Counties. However, WSSC bonds are part of the overlapping debt of County agencies. As of June 2000, WSSC debt represented 56.8 percent of Montgomery County's gross overlapping debt. Therefore, the amount of debt that WSSC issues is a factor in rating agency assessments of the credit worthiness of Montgomery County. Further, high levels of debt service may result in increases in the combined water and sewer rate. For this reason I believe that opportunities to limit debt service increases through the allocation of additional amounts of current revenue and/or fund balance to PAYGO should be pursued.

I would like to thank staff who have worked this fall to create this Capital Budget and CIP recommendation. As always, Executive Branch staff are available to assist you in your deliberations. I look forward to discussing with you any policy matters or major resource allocation issues that arise this spring.

DMD:jdc

Attachments: Recommended FY02 Capital Budget and Closeout Projects
 Executive Recommendation: Laytonsville Elevated Tank and Pumping Station
 Executive Recommendation: Blue Plains WWTP: Plant Wide Projects
 Executive Recommendation: Blue Plains WWTP: Biological Nutrient Removal
 Executive Recommendation: Blue Plains WWTP: Biosolids Mgmt Pt. 2
 Executive Recommendation: Blue Plains WWTP: Liquid Train Pt. 2
 WSSC Proposed Capital Improvements Program, Fiscal 2002-2007

cc: Bruce Romer, Chief Administrative Officer
 John R. Griffin, General Manager, Washington Suburban Sanitary Commission
 Stephen Farber, County Council Staff Director
 James A. Caldwell, Director, Department of Environmental Protection